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CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

7 June 1951

MEMORANDUM FOR: National Estimates Board
FROM : Task Team Chairman, NIE-32
SUBJECT : Economic Effects of the Korean War in China

1. The following items of intelligence pertinent to NIE-32 have been received since the Board last considered NIE-32:

- a. Source: Pei-ping Radio. A shortage of raw cotton forced Shanghai authorities on 29 May to order a six week closure of all textile mills in that city. This decision was followed on 1 June by a Pei-ping directive exhorting holders of raw cotton to sell their stocks to the government. It was pointed out that "if this situation remains unchanged, it would affect the clothing supply for the people and the stabilization of commodity prices."

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Staff Comment: The present raw cotton shortage is mentioned in NIE-32. The shortage is probably not due as much to hoarding by farmers (as implied by Peiping) as to insufficient production (a historic condition) and reduced imports. The shortage will continue until late 1951 when new crop becomes available. Shutdown of mills will increase urban unemployment and reduce supply of cotton cloth which is in heavy demand by both military and civilian consumers. The full significance of the shutdown cannot be assessed until it is determined whether it is temporary or prolonged.

b. Source: Peiping Radio. Recent Peiping broadcasts stated that Chinese troops in Korea need all types of heavy equipment, food, and medicines. Subsequent broadcasts called for increased agricultural output and extra work days in industry. A portion of the increased production is to be donated to buy planes, tanks, guns, and other items needed in Korea.

Staff Comment: This program is similar to "patriotic contribution" campaigns waged in North Korea before and during the war. It means, of course, an increase in the heavy tax burden noted in NIE-32.

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25X1X7 c. Source: [REDACTED] 29 May 1951. The report states that expenses of the Korean war have forced the Chinese Communist regime to stop making cash payments for agricultural purchases.

Staff Comment: This is another indication, noted in NIE-32, that governmental deficit is increasing and that purchases for support of the military establishment are exceeding government revenues. Stoppage of cash payments indicates a determined Government attempt to prevent development of strong inflationary pressures. To the extent that the farm products purchased on credit are not sold for cash in the cities, but are consumed by the military, the government will either have to issue paper money to pay the farmers eventually or actually confiscate the produce. If the issue of paper money is greatly expanded, increased inflationary pressures will develop, but this is not a current factor.

d. Source: Peiping Radio and various non-Communist observers: Heavy rains in some areas, drought in others, and unsettled conditions caused by the land reform and guerrilla activity are reducing the normal rice and cotton crops in various regions of China.

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Staff Comment: No information is available to permit a meaningful assessment of the extent of the drought or heavy rains. It is doubtful that the evidence is adequate to justify any change in NIE-32 on the question of agricultural production.

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e. Source: [REDACTED] (See attached paraphrase of cable)

Staff Comment: China has been "exceedingly impoverished, if not bankrupt" and its "needs for all kinds of strategic commodities" has been "desperate" for many years. Intelligence estimates cannot be based on such generalizations although they should be given considerable weight when they are made by a respected source such as [REDACTED] However, 25X6A

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[REDACTED] seems to give too little weight to China's manpower resources which constitute the principal element in her military potential. His assessment of the effects of a ban on western shipping to Chinese ports is correct. There are some indications that material losses in Korea and other critical Chinese needs are being met in cash or barter trade with the USSR.

f. Source: See attached extract

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